International Shoe Company

annual report

1965

54th

"Wouldn't you like to be in our shoes? Most of America is."

1965 ANNUAL REPORT
INTERNATIONAL SHOE COMPANY

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Annual Meeting of Stockholders
will be held at 10 a.m. on February 28, 1966
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

◀ *Shown here are a few of the wide variety of styles produced by the St. Louis Division.*

HIGHLIGHTS OF THE YEAR 1965

Fiscal Years Ended November 30,	**1965**	**1964**
Net Sales	$ 391,876,910	$ 345,448,310
Income before Federal and Foreign Taxes	19,545,223	14,396,578
Federal and Foreign Taxes on Income	8,100,235	5,517,629
*Net Income	10,879,325	8,440,790
Dividends Paid	4,292,241	4,118,186
Net Income per share	3.04	2.35
Dividends per share	1.20	1.20
Net Working Capital	131,011,941	126,795,899
Net Working Capital per share	36.65	35.37
Stockholders' Equity	125,554,972	119,652,198
Stockholders' Equity per share	$ 35.12	$ 33.38
Shares of Common Stock Outstanding	3,574,874	3,585,005
Number of Stockholders	15,700	17,600
Number of Employees	31,800	30,700

*After adjustments for minority interests.

To Our Stockholders:

International Shoe Company's fiscal year 1965 was a year of progress. Sales were the highest in the company's history and earnings were the highest since 1956.

In recognition of the continuing favorable trend in earnings, your Board of Directors increased the quarterly dividend rate from 30¢ to 35¢ a share which is equivalent to an annual rate of $1.40, effective with the January 5, 1966 payment.

I am pleased to report that all major areas of your company contributed to the improvement in the year's results with important contributions being made by the companies acquired in our program of diversification which began within the past two years.

Maurice R. Chambers

As this program is a new and very important phase in the business of International Shoe Company, I will comment briefly on the position of your company regarding diversification.

The P. N. Hirsch & Co. chain of junior type department stores was acquired by International Shoe Company on April 10, 1964, and Cowden Manufacturing Company, one of the leading manufacturers of men's and boys' work and play clothing, was acquired as of December 1, 1964. Both companies have performed excellently.

Considerable thought and care went into the study and evaluation of these companies with the prime objectives being to acquire compatible businesses with growth potentials, to earn a satisfactory return on investment, and to acquire capable and aggressive management in depth.

P. N. Hirsch & Co. and Cowden Manufacturing Company provided all of these qualifications. Activities of both companies were expanded during 1965 as you will note elsewhere in this report, and they will continue to expand in the years ahead.

Our future growth will be achieved through the planned expansion of the present manufacturing plants and retail stores and through continued diversification into other related areas to further broaden and strengthen the operating base of your company.

Since the close of our fiscal year several significant developments have occurred that will be of importance to our stockholders.

Your Board of Directors will ask the stockholders at the February 28, 1966 meeting to approve the authorization of additional stock for use in connection with future acquisitions and other developments for which the issuance of such shares may be deemed advisable. We will request the authorization of 250,000 shares of preferred stock and an increase in the present authorization of common stock from 4 million to 6 million shares.

The authorization of these shares will provide your management with the flexibility needed to negotiate future acquisitions on the most favorable basis.

Because of the change in the nature of the company's business we feel that we should have a corporate name with a broader title—one that will more appropriately identify the new corporate image. With this in mind, your directors will ask the stockholders' approval to change the corporate name from International Shoe Company to INTERCO INCORPORATED.

This change in name will mark the transition of a business that has been traditionally shoes to a company with a broader field of activity. The new corporate name will take on added significance as we expand into other areas.

At the beginning of fiscal year 1966, a major change was made in the organizational structure of the company's shoe manufacturing and retail operations which have been identified jointly in the past as the St. Louis Division. The new divisions will be known as International Shoe Company which comprises all functions relating to the manufacture, sale and distribution of shoes at wholesale, and as International Retail Shoe Company which operates company owned shoe stores and leased departments. Each of these divisions will operate with a president and its own officers and board of managers.

These changes were motivated by the company's rapid growth and diversification, and are designed to further strengthen the corporate management and to give the same degree of autonomy to each of the six major operating subsidiaries or divisions of the company.

The six major operating units are the International Shoe Company, International Retail Shoe Company, The Florsheim Shoe Company, Savage Shoes Limited, P. N. Hirsch & Co., and Cowden Manufacturing Company.

Two directors with records of long service retired during the year. Mr. Oliver F. Peters elected to retire from the Board of Directors, effective at the close of the company's fiscal year November 30, 1965. Mr. Peters had been associated with the company since its organization in 1911, serving as Vice-President from 1931 to 1962.

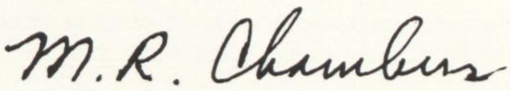
Laurence M. Savage, Chairman of the Board of Savage Shoes Limited, who became a member of the Board in 1954 and a Vice-President in 1961, retired on July 1, 1965.

We express our sincere appreciation for the loyalty and devotion to the company of both of these gentlemen and extend to them all good wishes in their retirement.

We move into the new year with the strong financial and management resources needed to successfully carry out our program for increasing sales and earnings.

We thank our many fine customers, stockholders, and loyal employees who have contributed so much to the improvement in the results for the year just closed.

FOR THE BOARD OF DIRECTORS



M. R. Chambers

January 10, 1966 President

1965
THE YEAR IN REVIEW

Consolidated Sales and Income

The company's net sales of $391,876,910 for 1965 set a record for the second year in succession. This volume exceeds the previous year's sales of $345,448,310 by $46,428,600 or 13%, and was 33% higher than the sales of two years ago.

Net income of $10,879,325 for the year was $2,438,535 higher than the prior year earnings of $8,440,790. Per share, this amounted to $3.04 compared with $2.35 a year ago, an increase of 29%. This was the highest per share earnings since 1956.

The sales and earnings for the year were enhanced by the acquisition, for cash as of December 1, 1964, of the net assets of Cowden Manufacturing Company. The year's results also include the operations of the Greenberg Mercantile Company whose assets were purchased for cash on May 1, 1964. In the comparable figures of a year ago, Greenberg's results are included for the seven months beginning May 1.

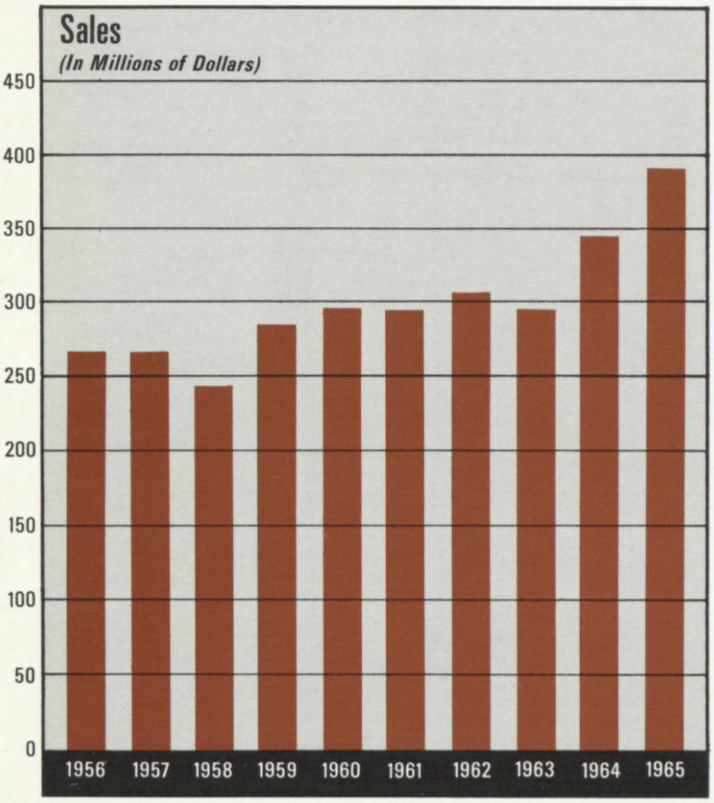
Increases in earnings were achieved in all areas of the company with particular improvement in the St. Louis manufacturing and retail divisions. Contributing factors to the improvement in the manufacturing division earnings were the upgrading of quality, the elimination of a number of low-priced unprofitable lines, and effective reductions in the operating costs of the manufacturing plants and at headquarters.

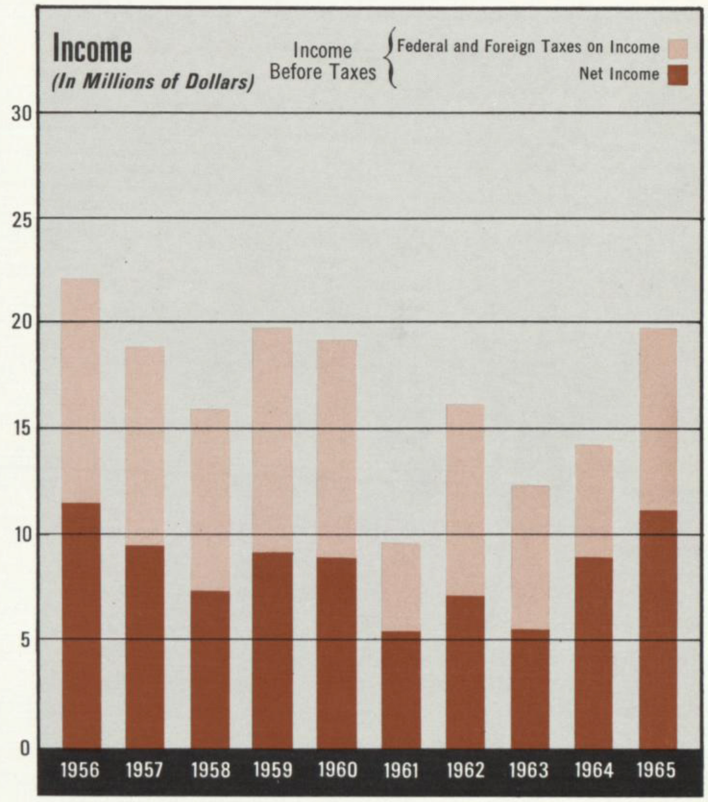
The better showing in the retail division was materially helped by closing unprofitable units and opening new stores and leased departments with good profit potentials.

An upward adjustment of prices was made in most of the company shoe lines for the Spring 1966 season. This adjustment was necessitated by substantially higher leather prices, higher labor rates, coupled with a sharp increase in the cost of Social Security benefits. A decline in the availability of hides in the world markets brought extreme pressure to bear on domestic hide prices. Leather prices reached their highest level since the Korean war in the second half of the year, and these higher prices have continued into the new year.

Financial Position

A continuing strong financial position is reflected in the consolidated balance sheet. Working capital at year end set another record high of $131,011,941 as compared with $126,795,899 a year ago. The ratio of current assets to current liabilities was 4.3 to 1.





The cash position remains favorable, despite the acquisition for cash during the year of the net assets of Cowden Manufacturing Company, and the purchase of 45,808 shares of the company's own common stock. The purchase of Cowden, the acquisition of treasury shares, and additional cash used for expansion of existing divisions of the company were possible with internally generated funds. No added borrowing was required.

Additional shares of the company's common stock may be purchased in the open market or in private transactions from time to time, to be used for acquisitions and other corporate needs.

Our principal long-term debt on which the first installment payment is due in 1970 remained at $50,000,000. Subsidiaries' long-term debt was increased by the assumption of debt in existence at the time of acquisition of the net assets of Cowden Manufacturing Company. The subsidiaries' debt is payable in varying amounts 1967 through 1979.

At year end, stockholders' equity per common share increased to $35.12 compared with $33.38 a year earlier. The net worth of the company advanced in 1965 to $125,554,972 from $119,652,198 at the close of fiscal 1964, an increase of $5,902,774.

Expenditures for physical properties in the year amounted to $6,262,620 of which $4,667,367 was provided by depreciation. Capital expenditures in 1966 are expected to be about $6,000,000.

Certain properties used in the operations are provided under various leasing agreements. The minimum annual rentals on those with terms longer than five years are approximately $4,900,000 annually.

Dividends

The board of directors, on December 1, 1965, voted to increase the quarterly dividend on the company's common stock from $0.30 to $0.35 per share, effective with the January 5, 1966 payment. This is equivalent to an annual rate of $1.40 per common share. The January payment was International Shoe Company's 219th consecutive dividend, completing 53 years of uninterrupted payments.

Dividend payments in 1965 amounted to $4,292,241 with the remainder of the year's net earnings of $6,587,084 retained in the business for future growth.

Production

The company's principal production is shoes. In 1965, 40,278,089 pairs of shoes were produced, comprised

of 16,494,714 pairs of men's, 9,876,669 pairs of women's, 13,366,318 pairs of juvenile, and 540,388 pairs of house slippers. The decline from the 43,357,270 pairs of shoes produced in 1964 is accounted for by the elimination of lower priced lines and reduction of shoe inventories.

The company also produces principally for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels and soles, chemicals, cements, cartons, containers, and other items having a market value of $29,938,495.

Organizational Changes

At the stockholders' meeting on February 23, 1965, Webster L. Cowden, President of Cowden Manufacturing Company, was elected to the Board of Directors of International Shoe Company. On the same date Philip N. Hirsch, President of P. N. Hirsch & Co. and Director of International Shoe Company, was elected a Vice-President.

On July 1, 1965, Laurence M. Savage retired as a Director and Vice-President of International Shoe Company and Chairman of the Board of Savage Shoes Limited.

Effective November 30, 1965, Oliver F. Peters, who retired as a Vice-President in 1962, elected to retire as a Director of International Shoe Company.

On December 1, 1965, the Board of Directors elected Maurice R. Chambers, Chairman of the Board and President, and Norfleet H. Rand, formerly Vice-President and Treasurer was elected Vice-Chairman of the Board and Treasurer. William J. Banks, formerly Vice-President and Comptroller, was elected to the new position of Financial Vice-President.

Also on December 1, 1965, M. R. Chambers appointed John D. Winfrey President of a newly created division which will be known as International Shoe Company and Joseph Fox was appointed President of International Retail Shoe Company.

Our Employees

At year end the company's fine working force of men and women numbered 31,800. We continue to point with pride to the high percentage of employees with long records of service and welcome those employees who have joined with us by acquisition in the past year.

Under the various insurance benefit programs in 1965, employees and their dependents were paid disability benefits in excess of $2,100,000 and beneficiaries of deceased employees received more than $750,000 in life insurance proceeds. Payments to retired employees amounted to $1,800,000.

SOURCE AND DISTRIBUTION OF FUNDS 1965

Funds were acquired from sources as follows:

Net income for year	$10,879,325
Provision for depreciation	4,667,367
Increase in long-term debt	1,019,752
Decrease in customers' loans receivable	889,458
Increase in deferred liabilities	453,195
New issue of Company's common stock (24,450 shares at $15 per share stated value)	366,750
Increase in capital in excess of stated amount	201,960
	$18,477,807

These funds were distributed as follows:

Expenditures for plant, equipment, and fixtures (net)	$ 6,262,620
Dividends paid on common stock	4,292,241
Increase in excess of investment over equity in subsidiaries, at acquisition	2,184,477
Net increase in treasury stock	1,253,020
Increase in sundry investments and other assets	198,190
Decrease in minority interests	71,217
	$14,261,765
Net increase in working capital	4,216,042
	$18,477,807

HOW WE USED OUR 1965 SALES DOLLAR

Materials, Supplies and Expenses	$227,816,717	58.1%
Employees' Pay and Benefits	138,262,149	35.3%
Taxes (excluding Social Security)	10,251,352	2.6%
Depreciation	4,667,367	1.2%
Dividends to Stockholders	4,292,241	1.1%
Remainder used in Business	6,587,084	1.7%
	$391,876,910	100.0%

The Company at a Glance

INTERNATIONAL SHOE COMPANY
ST. LOUIS, MISSOURI

The Florsheim Shoe Company
(Division)
Chicago, Illinois

P. N. Hirsch & Co.
St. Louis, Missouri

Puerto Rican Subsidiaries
Manati, San Juan and
Barceloneta, Puerto Rico

Societe des Chaussures Sirius S. A.
Romans, France

Savage Shoes Limited
Preston, Ontario, Canada

Cowden Manufacturing Company
Lexington, Kentucky

Julius Marlow Holdings Limited
Melbourne, Australia

DiVina Footwear, Inc.
St. Louis, Missouri

OPERATING FACILITIES

	United States	Canada	Puerto Rico	Australia	France	TOTAL
SHOE FACTORIES	32	8	5	2	1	48
WORK AND PLAY CLOTHING FACTORIES	7					7
TANNERIES	3					3
FINISHED GOODS WAREHOUSES	18	2	1			21
SUPPLY AND SERVICE PLANTS	12	1	1			14
RETAIL SHOE STORES AND DEPARTMENTS	607	6				613
DEPARTMENT STORES	185					185
	864	17	7	2	1	891

St. Louis Division

This was the St. Louis Division's first full year of marketing through specialty sales and service organizations. The men's sales divisions enjoy a strong position in the market. This position was strengthened by a line of Jantzen men's casual footwear introduced by Winthrop in September, manufactured under an exclusive licensing agreement. The Ambassador brand, a line of imported men's dress shoes, was added late in 1964 to meet an important customer need. These additions to our fine lines of men's shoes are opening new and important sales opportunities for this division.

The most significant development in our lines of women's and juvenile shoes in the year just closed was the product improvement resulting from a program which introduced new styling concepts, and emphasized higher quality materials and workmanship. Under this program, unprofitable low-priced lines were eliminated resulting in some loss in total volume; however, the improved, better quality lines of women's and juvenile shoes have been well received and should provide increasingly greater volume.

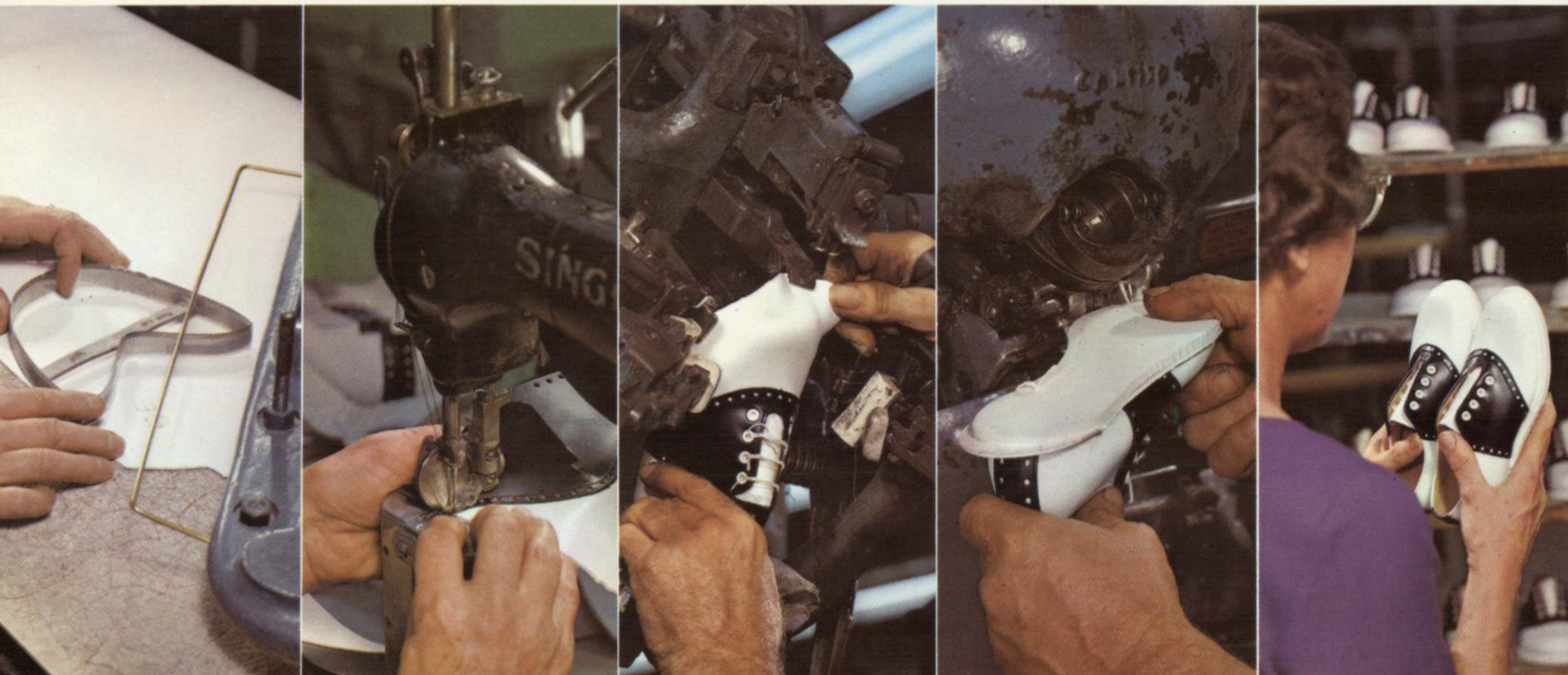
Continuing our program of plant modernization, plans have been approved for the construction of a new one-story 95,000 square foot shoe factory at Paducah, Kentucky. The new air-conditioned plant will replace an old multi-story plant in Paducah. Completion is expected by fall of 1966.

The five manufacturing plants in Puerto Rico produce shoes principally for distribution by the St. Louis Division. This operation's contribution to earnings in 1965 was the highest on record.

The St. Louis Retail Division had its best year in 1965. Sales reached a new high for this division with a considerable improvement in profits.

Our expansion program for retail shoe operations was well on target with the opening of forty-two units during the year. Fifty-five unprofitable units were closed. At year end, leases had been negotiated for sixteen new locations which are scheduled for opening early in 1966.

Shown here in our modern Hermann, Missouri plant are 5 of some 150 shoe making operations.



The Florsheim Shoe Company

The Florsheim Division completed the year with the highest sales and profits in its history. These outstanding results again emphasize the dominant position the division enjoys in the quality field and the high degree of customer acceptance of its shoes. Appearing on the back cover is a photograph of one of the Fall season's Florsheim men's styles, as advertised nationally in the New Yorker Magazine.

To provide better dealer service, an addition to the present men's warehouse was completed during the year. New equipment was also installed to reduce the time required for order filling.

A new plant, presently under construction on Florsheim Drive in Anna, Illinois, will be opened early in 1966 to meet the requirements for additional production. This new plant will replace an existing building which is no longer adequate for the increased sales demand. The new facility will be completely air-conditioned and will contain the latest advances in shoe making equipment.

Further expansion has taken place in both the men's and women's retail stores, principally in major shopping center locations where independent dealer distribution was not available. Generally, the men's shopping center stores include a Gay Nineties Barber Shop operation. These Barber Shops are unique to the operation of men's Florsheim stores. For the first time, a women's store, operating under the trade name, Thayer McNeil, was opened on the West Coast. Reflecting the increased acceptance of Florsheim women's shoes, further expansion is planned in the coming year for additional Thayer McNeil store openings in other sections of the country.

The year nineteen sixty-five marked an important milestone in the history of the Florsheim Division. For the first time, Florsheim men's shoes were manufactured in Australia. These shoes are manufactured under the supervision of Julius Marlow Holdings Limited which maintains the same high Florsheim standard of quality that is followed in the United States.

The division's French affiliate, Sirius Shoe Company, continues to maintain its dominant position in the manufacture of men's quality shoes in France.

Florsheim's new men's store in Dallas' North Park Shopping Center, one of fourteen new units opened in 1965.

Savage Shoes Limited

Earnings of Savage Shoes Limited in 1965 were the highest in the history of the company.

The company maintained its high share of the Canadian market in the face of substantially increased domestic and foreign competition. Sales in the men's, women's, and juvenile divisions have been strengthened and earnings in the women's division, particularly, were notably improved over previous years.

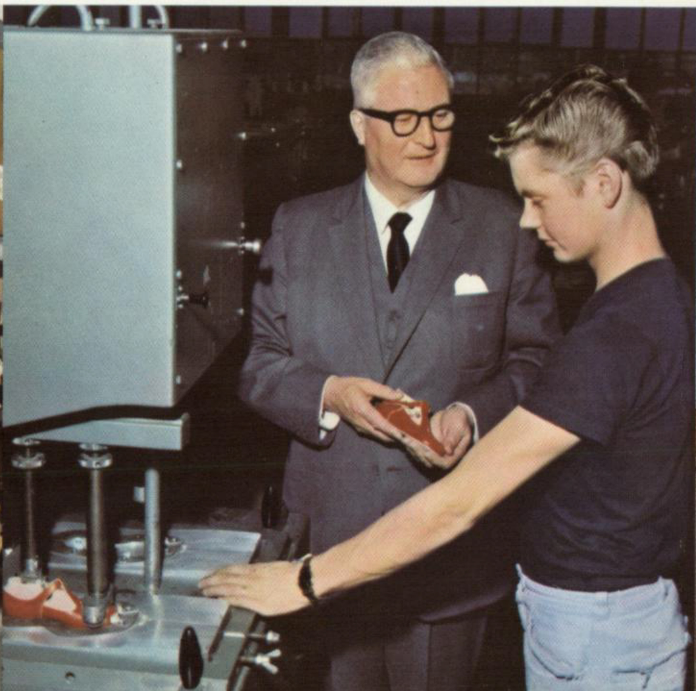
Earnings reflected the benefit of the reorganizational changes which were begun in 1963. These advantageous moves involved the combining at company headquarters in Preston, Ontario of all selling functions into three main divisions—men's, women's and juvenile, and the further centralization of administrative and service activities.

Plans were recently approved for the construction of a new plant in the company's home location at Preston, and for the centralization in Preston of all finished shoe warehouse functions. The new shoe plant will be a modern one-story 70,000 square foot building with increased mechanization and will include the latest technological shoe making improvements. The modernization which will be started early in 1966, will considerably increase the Canadian productive capacity and lower manufacturing costs.

The year 1965 marked the entry of Savage Shoes Limited into the retail shoe field in Canada. Two men's specialty shops were opened in the city of Montreal, Quebec and four leased departments were opened in major department stores in Hamilton, Ontario and Edmonton, Alberta. Further expansion of retail operations is going forward under a carefully planned program.

John S. Malcolm, President of Savage Shoes Limited became its Chief Executive Officer in July 1965 upon the retirement of Laurence M. Savage, Chairman of the Board.

Attractive leased shoe department recently opened in Hamilton, Ontario.


J. S. Malcolm, president, and employee inspect production from new injection molding machines.

P. N. Hirsch & Co.

P. N. Hirsch & Co., acquired in April, 1964, made another fine contribution to both sales and earnings in its second year of association with International Shoe Company.

The Hirsch chain of junior department stores was started in 1930 with one store in southern Illinois. It has grown on a consistent and profitable basis to a total of 185 units with stores in thirteen midwestern, southern and Pacific northwestern states.

During the year, fourteen new stores were opened, five established stores were purchased, and four marginal locations were closed. Early in the year the net assets of Hammel's of Mobile, Alabama, were acquired. Hammel's, the largest independent department store in Mobile, has been serving the Mobile gulf coast for 92 years. Plans are under way to expand this operation into a suburban shopping area.

In September, the three Thornton's Department Stores of Abilene, Texas, were added to the Hirsch chain. One store is located in downtown Abilene and two in suburban shopping centers. The Thornton's name is well-known in Abilene, and enjoys an enviable reputation for quality merchandise and customer satisfaction.

The Mobile store and the Abilene stores, as well as the seventeen Pacific northwest stores primarily offer nationally branded merchandise. The larger midwest group of stores are popular-priced family stores featuring private branded merchandise and they are centrally merchandised and serviced by two large warehouses in St. Louis.

A program was instituted a number of years ago to train store managers and to promote from within the organization. This program has contributed much to the growth of the company and is reflected in the morale of its employees.

One of the three newly acquired Thornton's Department Stores in Abilene, Texas.

Cowden Manufacturing Company

Cowden Manufacturing Company, with headquarters in Lexington, Kentucky, produces a complete line of men's and boys' work and play clothing. The line includes jeans, pants, work suits, overalls, and overall jackets. The Cowden Company, established in 1919, specializes in sales to chain organizations and large department stores and enjoys a sizeable volume of export business, mainly to France and West Germany.

The production facilities of Cowden Manufacturing Company at the time of acquisition consisted of six plants, all operating in new modern buildings, located within a seventy-five mile radius of Lexington. These plants are equipped with the latest sewing machines operating under the most modern engineering refinements. The company operates two central warehouses, engineered for maximum efficiency, which receive and stock finished garments for shipment to customers or to outlying distribution warehouses. The distribution warehouses are located at Hazelton, Pennsylvania; Kansas City, Missouri; and Delano, California. These three distribution units, together with the two warehouses in Kentucky, enable Cowden Company to provide fast and efficient service to its customers.

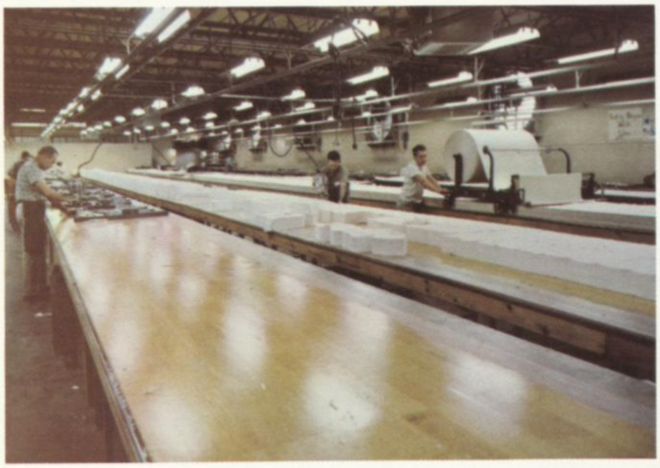
During the past year, three manufacturing facilities were expanded to enable the company to increase its production capacity. In addition, a new plant is being constructed for occupancy early in 1966 in Greenville, Kentucky. Sewing facilities have been installed in a temporary building to train employees for the new plant. Negotiations were recently concluded for a second new plant in this general area. Here again operations will start in temporary quarters. Eventually the company plans to have a complex of plants and warehouses in that area similar to those around Lexington.

The company has enjoyed outstanding growth during the past few years, and in completing its first year as a subsidiary of International Shoe Company, has reached new highs both in sales volume and profits. The additions to manufacturing facilities already completed, as well as the two new plants beginning operations, will afford the company the opportunity to continue the rapid rate of growth it has enjoyed in the past years on a sound, well-established basis.

New modern general office building in Lexington, Kentucky.

After creasing under heavy pressure, garments move through oven to establish permanent crease.

Interior view of one of five modern conveyorized warehouses.



Electric knives cut up to 120 layers of cloth for component parts of garments.

Sewing department assembly line utilizing high-speed commercial sewing equipment.

CONSOLIDATED BALANCE SHEET

Assets

November 30,	1965	1964
Current assets:		
Cash	$ 16,100,192	$ 19,230,542
Marketable securities, at cost—approximates market	2,892,125	5,847,125
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts	55,847,121	49,764,404
Inventories (note 2):		
Finished products and other merchandise	67,125,851	61,859,672
Raw materials and work in process	27,940,358	24,427,689
	95,066,209	86,287,361
Prepaid expenses	909,356	915,834
Total current assets	170,815,003	162,045,266
Customers' secured loans, deferred maturities	3,187,548	4,077,006
Excess of investment over equity in subsidiaries, at acquisition	6,925,419	4,740,942
Sundry investments and other assets	1,914,843	1,716,653
Physical properties, at cost:		
Land	4,144,107	4,005,706
Buildings and structures	46,103,184	44,900,054
Machinery and equipment	47,786,412	48,069,947
Lasts, patterns, and dies	1	1
	98,033,704	96,975,708
Less accumulated depreciation	55,419,272	55,956,529
	42,614,432	41,019,179
	$225,457,245	$213,599,046

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity

November 30,	1965	1964
Current liabilities:		
Notes payable to banks	$ 2,537,275	$ 2,462,350
Current maturities of long-term debt	409,084	1,794,966
Accounts payable and accrued expenses	30,649,058	26,197,421
Federal and foreign income taxes	6,207,645	4,794,630
Total current liabilities	39,803,062	35,249,367
Deferred Federal income taxes	1,674,800	1,476,800
Deferred compensation	1,546,244	1,291,049
Long-term debt, less current maturities:		
4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990	50,000,000	50,000,000
Subsidiaries' debt payable in varying amounts through 1979	3,645,187	2,625,435
	53,645,187	52,625,435
Minority interests in subsidiaries	3,232,980	3,304,197
Stockholders' equity:		
Common stock without nominal or par value:		
Authorized 4,000,000 shares; issued 3,674,650 shares (3,650,200 shares in 1964) (note 3)	55,119,750	54,753,000
Capital in excess of stated amount	275,669	73,709
Retained earnings	73,318,844	66,731,760
	128,714,263	121,558,469
Less common stock in treasury, 99,776 shares (65,195 shares in 1964), at cost	3,159,291	1,906,271
Stockholders' equity applicable to common stock outstanding, 3,574,874 shares (3,585,005 shares in 1964) (note 4)	125,554,972	119,652,198
Commitments and contingent liabilities (note 5)	$225,457,245	$213,599,046

CONSOLIDATED INCOME AND RETAINED EARNINGS

Years Ended November 30,	1965	1964
Sales and other income:		
Net sales	$391,876,910	$345,448,310
Interest and other income	1,790,039	1,297,619
	393,666,949	346,745,929
Deductions:		
Cost of sales	278,152,748	243,972,354
Selling, general and administrative expenses	88,162,744	80,993,100
Depreciation	4,667,367	4,475,788
Interest and amortization of expense on long-term debt	2,531,750	2,527,790
Other interest and sundry charges	607,117	380,319
	374,121,726	332,349,351
Income before Federal and foreign income taxes	19,545,223	14,396,578
Federal and foreign income taxes	8,100,235	5,517,629
	11,444,988	8,878,949
Net income of minority interests	565,663	438,159
NET INCOME	10,879,325	8,440,790
Retained earnings at beginning of year	66,731,760	66,919,879
	77,611,085	75,360,669
Deductions:		
Dividends on common stock, $1.20 per share, both years	4,292,241	4,118,186
Charge arising from pooling of interests, less amount charged to capital in excess of stated amount	—	4,510,723
	4,292,241	8,628,909
RETAINED EARNINGS AT END OF YEAR	$ 73,318,844	$ 66,731,760

CONSOLIDATED CAPITAL IN EXCESS OF STATED AMOUNT

Years Ended November 30,	1965	1964
Balance at beginning of year	$ 73,709	$ 1,508,095
Adjustments resulting from treasury stock transactions and issuance of stock under option plans	201,960	60,272
	275,669	1,568,367
Deduct excess of stated value of common stock and cost of treasury stock issued over par value of stock acquired under pooling of interests concept	—	6,005,381
Less balance charged to retained earnings	—	4,510,723
	—	1,494,658
CAPITAL IN EXCESS OF STATED AMOUNT AT END OF YEAR	$ 275,669	$ 73,709

See accompanying notes to financial statements.

Notes to Financial Statements

(1) Principles of consolidation:

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements. The accounts of foreign subsidiaries have been converted to United States dollars, generally at year-end rates for working capital, at rates on date acquired for fixed assets and related depreciation, and at average monthly rates for income and expense accounts. Unremitted foreign earnings included in net income have been retained for permanent reinvestment by the respective subsidiaries, and accordingly no provision for income taxes is considered necessary with respect thereto.

(2) Inventories:

Eighty-two percent of the inventories are priced at the lower of cost, first-in, first-out, or replacement market. The remainder of the inventories are priced at cost, last-in, first-out (LIFO) which is below replacement market.

(3) Common stock subject to options:

At the beginning of the year, options to acquire 143,100 shares at an average price of $25.01 were outstanding. During the year no options were granted; options for 26,650 shares at an average price of $23.59 were exercised and options for 2,600 shares at an average price of $24.31 were cancelled. At November 30, 1965 options to acquire 113,850 shares at an average price of $25.36 were outstanding.

Of the options outstanding at November 30, 1965, 44,000 shares at $23.50 were reserved under the Restricted Stock Option Plan adopted April 21, 1959, modified and extended November 5, 1962. The remaining restricted stock options outstanding at the close of the year, 69,850 shares at an average price of $26.53 were granted by the company to executive and administrative employees at prices representing at least market value at the date of grant.

(4) Stockholders' equity:

Retained earnings of $43,810,400 at November 30, 1965 are restricted as to payment of cash dividends on common stock by the 4⅝% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $80,000,000.

Reference is made to page 3 of this annual report regarding the proposed authorization of preferred and additional common stock subsequent to November 30, 1965.

(5) Commitments and contingent liabilities:

The minimum rentals on properties leased for terms of more than five years approximate $4,900,000 annually.

During the year the company adopted a deferred incentive bonus plan which provides for retirement benefits to certain executives and key employees measured by the increase in the market value of the company's common stock from date of the plan principally to January 5, 1970. The cost of the plan will be estimated and recorded annually.

Accountants' Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERNATIONAL SHOE COMPANY:

We have examined the consolidated balance sheet of International Shoe Company and subsidiaries as of November 30, 1965 and the related statements of income and retained earnings and capital in excess of stated amount for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings and capital in excess of stated amount present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 7, 1966

10 YEAR CONSOLIDATED

YEARS ENDED

	1965	1964	1963
FOR THE YEAR			
Net Sales	$391,877	$345,448	$295,615
Income Before Taxes	19,545	14,397	12,302
Federal and Foreign Income Taxes	8,100	5,518	6,528
Net Income (1)	10,879	8,441	5,493
Dividends Paid	4,292	4,118	4,004
Percentage of Net Income to Sales	2.8%	2.4%	1.9%
AT YEAR END			
Cash and Securities	$ 18,992	$ 25,078	$ 21,966
Receivables	55,847	49,764	54,113
Inventories	95,066	86,287	72,003
Prepaid Expenses	910	916	737
Total Current Assets	170,815	162,045	148,819
Current Liabilities	39,803	35,249	29,981
Working Capital	131,012	126,796	118,838
Physical Properties (Net)	42,614	41,019	40,318
Other Assets	12,028	10,535	9,343
Deferred Liabilities	3,221	2,768	2,516
Long-term Debt	53,645	52,626	52,229
Minority Interests in Subsidiaries	3,233	3,304	2,584
Stockholders' Equity	$125,555	$119,652	$111,170
Shares of Common Stock Outstanding	3,574,874	3,585,005	3,281,277
PER SHARE OF COMMON STOCK (2)			
Net Income	$ 3.04	$ 2.35	$ 1.67
Dividends	1.20	1.20	1.20
Stockholders' Equity	35.12	33.38	33.88

(1) After adjustment for minority interests.

(2) Based on shares outstanding.

(3) Includes nonrecurring items which increased net income $1,101,325 or 33 cents per share.

(4) 1964 and 1965 include P. N. Hirsch & Co. acquired in 1964 on a pooling of interests basis.

FINANCIAL REVIEW

NOVEMBER 30

1962	1961	1960	1959	1958	1957	1956
(DOLLARS IN THOUSANDS)						
$303,182	$294,275	$296,470	$283,261	$244,314	$266,073	$266,814
16,008	9,369	18,855	19,400	15,554	18,675	22,123
8,616	4,081	10,101	10,132	7,938	9,095	11,246
7,071	5,191	8,867	9,207	7,541	9,577	11,849(3)
4,050	6,116	6,113	6,050	7,043	8,054	8,062
2.3%	1.8%	3.0%	3.3%	3.1%	3.6%	4.4%
(DOLLARS IN THOUSANDS)						
$ 16,453	$ 16,683	$ 11,634	$ 9,952	$ 12,317	$ 8,495	$ 8,892
54,807	55,048	53,598	52,418	43,468	45,304	46,778
77,000	74,355	83,385	80,198	65,473	71,613	74,409
747	707	781	680	404	593	564
149,007	146,793	149,398	143,248	121,662	126,005	130,643
30,675	27,952	28,800	42,291	24,291	28,459	30,838
118,332	118,841	120,598	100,957	97,371	97,546	99,805
40,976	40,247	40,538	38,588	37,882	38,520	37,054
9,527	9,772	10,339	10,805	10,836	11,257	10,657
1,474	788	729	630	581	506	415
54,571	56,820	58,585	40,351	41,316	42,999	44,415
1,481	1,438	1,395	1,453	912	1,035	1,228
$111,309	$109,814	$110,766	$107,916	$103,280	$102,783	$101,458
3,341,470	3,397,222	3,398,022	3,395,222	3,353,718	3,353,718	3,358,703
(IN DOLLARS)						
$ 2.12	$ 1.53	$ 2.61	$ 2.71	$ 2.25	$ 2.86	$ 3.53(3)
1.20	1.80	1.80	1.80	2.10	2.40	2.40
33.31	32.32	32.60	31.78	30.80	30.65	30.21

International's Family of Fine Shoe Brands

Men's

AMBASSADOR JANTZEN
BRIARCLIFF KINGSWAY
CITY CLUB RAND
FLORSHEIM RANDCRAFT
FUN-SHUS JOHN C. ROBERTS
GOPHERS WESBORO
WINTHROP

Service

DIAMOND BRAND HY-TEST
OUTDOORSMAN STAR BRAND

Women's

ACCENT FUN-SHUS
CONDADOS GOPHERS
DiVINA JANTZEN
FIANCÉES MISS WONDERFUL
FLORSHEIM PERSONALITY
VITALITY

In Canada

ACCENT RAND
FLORSHEIM SAVAGE
JOHN McHALE VITALITY
WINTHROP

Juvenile

CONDADOS POLL-PARROT
FUN-SHUS RED GOOSE
GOPHERS WEATHER BIRD

Slippers

PETITE SKAMPS

In Australia

JULIUS MARLOW FLORSHEIM

In France

ATHOS SIRIUS

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WEBSTER L. COWDEN

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RICHARD H. ELY

HAROLD M. FLORSHEIM

J. RUSSELL FORGAN
Chairman of the Board—Glore Forgan, Wm. R. Staats Inc.

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PHILIP N. HIRSCH

J. LEE JOHNSON

WARREN P. METZ

OLIVER F. PETERS

NORFLEET H. RAND

EDWARD J. RILEY, JR.

EUGENE J. ROESSEL

JOHN D. WINFREY

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JOSEPH FOX	*Vice-President*
EUGENE J. ROESSEL	*Vice-President*
EDWARD J. RILEY, JR.	*Vice-President*
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PHILIP N. HIRSCH	*Vice-President*
WARREN P. METZ	*Secretary & Assistant Treasurer*
RICHARD H. ELY	*Assistant Secretary*

General Counsel

RICHARD H. ELY

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New York, New York

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National Association
St. Louis, Missouri

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New York, New York

St. Louis Union Trust Company
St. Louis, Missouri

THE FLORSHEIM SHOE